



## **PRESS RELEASE**

### **Increase in Primary Reserve Requirements**

In accordance with Section 40 of the Bank of Botswana Act, the primary reserve requirement (PRR) for commercial banks will be increased from 6.5 percent to 10 percent of total Pula deposits held at commercial banks with effect from July 1, 2011. Primary reserves are the commercial banks' deposits held in a special non-interest earning account at the Bank of Botswana. The maintenance of these deposits at the Bank contributes to the absorption of excess liquidity in the banking system.

The increase in the primary reserve requirement is intended to reduce the amount of liquidity that is mopped up through Bank of Botswana Certificates (BoBCs) and, thus, help to contain the cost of monetary operations. The Bank's monetary operations are integral to the effectiveness of the monetary policy framework. However, in the process, significant costs are incurred, especially in the context of persistent structural excess liquidity in the banking system.

Normally, an increase in the primary reserve requirement ratio implies monetary policy tightening. However, in this instance, the increase is unlikely to constrain supply of credit as, by definition, the funds mopped through the BoBCs are ~~excess~~ to what is required for productive lending. In other words, loanable funds will still be abundant even after the increase in the primary reserve requirements from 6.5 percent to 10 percent effective July 1, 2011.

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